

SERVICE PROVIDERS TO MULTI-FAMILY DWELLING UNITS

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The delivery of **telecommunications** and interactive services to the multiple dwelling unit (MDU) marketplace-apartment communities, condominiums, university dormitories and retirement communities-has emerged as a hotbed of opportunity, particularly for companies seeking to integrate and bundle their offerings.

Estimates place the MDU market at \$16 billion for services ranging from local and long-distance telephony, cable and on-demand video delivery and high-speed Internet access that enables such transactional interactive services as electronic shopping and banking. So far, a cadre of private **telecommunications** companies have lunched forward to seize the opportunity, but the growing market has not escaped the gaze of the multiple system cable operators and the telephone companies.

The market is attractive because it allows the delivery of services to a high-density location. MDUs are defined as having five or more rental units. Fifteen million such properties exist in the United States, according to **telecom** researcher and consultant The Yankee Group, Boston. About 3 million apartment buildings have 15 or more units. U.S. government statistics show that more than 80 million people in the United States live in rental housing.

Meanwhile, real estate companies have embraced the MDU concept and eagerly want to partner with **service** companies because they receive discounts and share revenues with the **service** providers. They also can offer the convenience of wired communities to prospective, typically higher income clients.

"Companies like ours are literally becoming gatekeepers in an industry made up of high-density, residential housing," said John Mitchell, executive vice president for marketing and a founder of Multi Technology Services, Richardson, Texas, one of about a dozen private **telecom** companies operating in the United States. "You name the **service** and this industry is going to provide it."

Indeed, large metro areas are proving to be hot spots for the construction of multifamily units, led by Atlanta, Las Vegas, Phoenix, Dallas and Denver in 1996, according to M/PF Research Inc., Dallas.

In Denver last month, for instance, Apartment Investment and Management Co., a real estate investment trust that owned 56 multifamily apartment properties containing 14,585 units as of Aug. 31, announced it would provide cable television services to all of its properties through an agreement with a private **telecom** company, investing \$3.8 million in the project in 1996 and 1997.

According to Andy Bane, the company's director of corporate services, "our goal is to leverage the cable television gateways to our apartment properties."

The movement toward providing MDU **telecom** services, given a boost from the 1996 **Telecommunications** Reform Act and the climate for competition it has fostered, will also benefit from Baby Boomer retirements over the next few years, observers said. Baby Boomer consumers are defined statistically as those born between 1946 and 1964. Some California retirement communities already are being built or redesigned with fiber-optic lines for interactive television and high-speed Internet access. DBS Entering Market

The direct-to-home satellite industry is also eying the MDU marketplace, with direct broadcast satellite provider DirecTV Inc. launching an MDU program in August. DirecTV is establishing a national network of independent system operators to **service** the MDU market.

"We certainly know that all the major **telecom** (cable and telco) companies are looking at **MDUs**. They see it as an important segment of the market," said Brian Adamik, director of consumer communications at the Yankee Group.

The Yankee Group estimates there are some 600,000 MDU customers subscribing to integrated services today.

Observers said cable operators will be a good fit for the MDU market, particularly as they join telephony and cable modem offerings with their traditional video businesses. According to a study earlier this year from **telecom** consultant, MTA-EMCI, Washington, cable operators' initial foray into telephony over the next two to three years will be to **MDUs**, including apartment buildings and office complexes.

Multiple **service** operator Jones Intercable Inc., Englewood, Colo., for instance, has been experimenting with the MDU market almost by default, according to Dave Feldman, senior director for technology. Reacting to merger talks a few years ago between Tele-Communications Inc. and Bell Atlantic Corp., Jones moved to protect its Northern Virginia franchise area by building a multi-**service** network in Alexandria, Va. The two-way hybrid-fiber coax network is being testing presently at an Alexandria apartment complex, offering video, voice and data services.

Multi Technology Services' Mitchell said he believes the private **telecommunications** companies will be well-positioned in the MDU market by the time larger companies begin to significantly embrace the market.

"A private operator in most cases is much easier to work with in terms of scheduling. More importantly, they look at it from a lease up standpoint-what's in it for them." Mitchell said, adding that the company projects January 1997 revenues of \$1.6 million, up from \$495,000 in January 1995. Customer Care Is Key The Yankee Group's Adamik said ultimately the winner for the heart of the MDU market will be those companies that offer the best customer care.

"It seems like we can buy and merge all the time... but to provide an effective bill, and provide that one number, that one contact that you can deal with, that is going to be the challenge. That is the thing consumers are looking for as consolidation and

convergence take place," Adamik said.

(Multi Technology Services, 214/783-3000; M/PF Research 214-980-2900; Apartment Investment and Management Co., 303/757-8101; The Yankee Group, 617-56-5000) What Makes MDU Offerings Attractive... For the consumer * Immediate **service**; no waiting for an installer * Lower monthly rates * One bill for bundled services * No deposits required * Reduced installation fees for services... For the property owner * Completely addressable cable system * Property cable channel, property-wide voice mail * Free local **telephone service** in management office * Revenue sharing * Dedicated marketing representatives Source: Multi Technology Services
INDUSTRY: MEDIA - ALL

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Apartment firms find value in strong management

Dober, Patrick

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ABSTRACT: Over the last decade, several factors have encouraged multifamily firms to focus on creating value from property management, including: 1. The federal tax reforms of 1986 brought a virtual end to the tax-driven approach to rental housing. 2. A significant portion of multifamily housing now is owned by institutional investors who have more demanding expectations of financial performance than the family and partnership ownership structures that predominated in the past. 3. Many of today's renters demand more from their apartment company in services, amenities, and conveniences. As a result, apartment companies have formulated an array of management strategies that can be categorized under 3 broad themes: 1. the focus on resident or customer satisfaction, 2. the use of size or access to residents to either directly supply retail goods and services to residents or to act as a conduit for traditional retailing companies, and 3. reducing the cost of apartment operations and maintenance inputs with high volume and direct purchasing that cuts out agents and brokers.

TEXT: Many of the country's leading apartment firms are creating substantial new value for residents and owners through innovative approaches to property management, making property management an increasingly important element of the apartment industry. This column begins with a discussion of the factors behind the increased importance of management, then summarizes the primary approaches to enhancing profitability through management.

Management improvements

Over the last decade, several factors have encouraged multifamily firms to focus on creating value from property management.

The federal tax reforms of 1986 brought a virtual end to the tax-driven approach to rental housing. Combine this with the end of rapid capital asset appreciation, and the days of automatic profit in rental housing were over. In the 1990s, multifamily firms were forced to look to property management to make an increased contribution to total company revenue.

A significant portion of multifamily housing now is owned by institutional investors who have more demanding expectations of financial performance than the family and partnership ownership structures that predominated in the past. Institutions such as pension funds and mutual funds demand consistent and growing returns. These investors rigorously evaluate returns compared to alternative investments. Further, the securitization and public trading of apartment debt and equity creates public investor scrutiny and widely disseminated information on apartment company performance.

The increasing size of the top apartment companies, as documented by the annual National Multi Housing Council 50, creates efficiencies in all aspects of property management, allowing delivery of better service to residents at lower costs.

Ownership of apartments by real estate investment trusts (REITs) and the purchase of limited partnership interests by private company general

partners gives managers increased, centralized control over their portfolios. This facilitates implementation of practices such as portfolio wide management strategies, bulk buying and centralized staff training. Many of today's renters demand more from their apartment company in services, amenities and conveniences. Today's discretionary renter, who can afford to buy but chooses to rent, evaluates management critically and will relocate if expectations are not met.

Customer service commitment

As a result of these motivating factors, apartment companies have formulated a vast array of management strategies. These management strategies can be categorized under three broad themes. First and foremost is the focus on resident or customer satisfaction that now pervades many apartment companies. In presentations at the Urban Land Institute's spring meeting, executives from Equity Residential, Post Properties, Avalon Properties, R&B Realty and Trammell Crow Residential discussed their companies' pervasive commitment to customer service. These firms are increasingly spending money to attract and train talented individuals who will make property management their career. These firms tie compensation to performance based on customer satisfaction surveys. And some firms offer residents free rent for any time beyond 24 hours that a repair request is unfulfilled.

A small sampling of the many specific services offered or under development by these five companies and other industry leaders includes: van service to mass transit; no-fee bank accounts; equipment for loan such as sports supplies, tool boxes and carpet shampoo machines; on-site sale of basic needs like stamps and light bulbs; twice monthly payment plans to match residents who draw their salaries that way; concierge services; wake up calls; exercise classes; and community newsletters, outings and other activities that build the sense of community which many residents seek.

Retail selling

A second major type of management strategy involves apartment companies using their size and access to residents to either directly supply retail goods and services to residents or, more commonly, to act as a conduit for traditional retail companies. Apartment companies are realizing that proximity to residents and their daily needs provides numerous opportunities to both earn new revenues and provide discounted, conveniently delivered products to their residents.

Telecommunications : Apartment company alliances with alternative telephone and television providers, such as GE Capital-ResCom, is a prime example of the entry of apartment companies into the consumer service delivery world. Apartment companies make available large numbers of customers to the **telecommunications** provider and in return get discounted and potentially higher quality services for residents, as well as a share of resident payments in some cases. Camden Property Trust, a Houstonbased **REIT**, is moving further into the delivery of telephone services by providing, on its own, more of the necessary hardware than under the typical **telecommunications** -apartment company alliance - the anticipated result being an increased share of revenue for Camden.

The size of the market for direct selling of **telecommunications** is unknown. A key question for **telecommunications** and many other goods and services that might be provided by or through apartment companies is what portion of older, B- and C-quality properties are suitable. Insignia

services to a wide inventory of properties including older properties.

Preferred vendor discounts: A host of discounted products are being offered to residents under arrangements called preferred vendor discounts, where apartment companies partner with retail firms to market products to residents in return for substantial discounts. Again, Insignia is an innovator. In January 1996, the firm announced an alliance with Hospitality Franchise Systems (HFS) to offer discounts on products that may include appliances, insurance, travel planning and car rental as well as products from top-name companies like Coca-Cola, AT&T, Pizza Hut and Zenith. The products and services will be marketed through an association termed "Residents Direct Access" by Insignia subsidiary Compleat Resource Group.

Opportunities from residents working at home: The growing practice of telecommuting (working from home) will increase the multifamily company's advantage of proximity to residents' daily needs. The next horizon could be delivering both personal and business products to people working at home, which they formerly purchased at the workplace. Many new apartment communities offer business centers with messaging, mailing, photocopying and computer services free of charge. But at least one company plans to turn business centers into revenue sources by bringing in stores like Mail Boxes Etc. and Kinko's Copies.

Direct buying

A third major property management approach involves reducing the cost of apartment operations and maintenance inputs with high volume and direct purchasing that cuts out agents and brokers call this "direct buying." Direct buying of apartment inputs is not new, but its potential to increase profits is substantial. Many firms now are circumventing local sales agents and buying directly from the factory. For example, Avalon Properties negotiated an agreement with a carpet factory and achieved an 8% to 12% discount below the price obtained through traditional intermediary suppliers. Through its Apartment 2000 project, JPI intends to utilize volume discounts with suppliers to build new apartments with superior amenities at the same rent levels as their competitors.

Pooled buying by multiple companies is an alternative to individual company purchasing. At least four firms - Buyers Access, Professional Apartment Services, GE Power Buyer Service and Maintenance Warehouse - offer apartment companies a range of supplies at costs typically below those that an individual company can negotiate. A subsidiary of NHP, Buyers Access purchases supplies for approximately 500,000 apartment homes. The downside of this approach is the potential loss of customized service provided by local suppliers familiar with specific apartment communities and their needs.

The pooled buying approach illustrates an important point: firms do not necessarily have to grow on their own in order to take advantage of many of the approaches discussed in this article. As an example from the retail selling side of the equation, Insignia's Compleat Resource Group (CRG) plans to offer discounts to any size apartment company based on the collective buying power of CRG.

Utilities: Another example of pooled buying, this one in the utilities area, comes from the New Jersey Apartment Association (NJAA) which is taking advantage of natural gas deregulation to bypass a regional gas utility and purchase gas directly from the pipeline for its member firms. The NJAA claimed a 19% savings rate during the winter of 1995-96. Outside New Jersey's initiative, direct buying of utilities is undeveloped. One

electric power. Similar to New Jersey's gas purchasing, retail wheeling means direct purchasing of power from the regional power grids, bypassing the electric utility companies.

Final observations

Many of the approaches discussed here are in early stages of development. Some will not pan out, and some have failed to deliver on expectations. Some **telecommunications** companies, for example, have failed to deliver on their contracts with apartment companies. The wise apartment owner may wait to see technologies and methodologies mature before committing to certain capital and staff intensive initiatives.

The apartment company of the future will have the opportunity to operate a variety of resident services and sales businesses in addition to the core business of providing quality apartments. Companies will be faced with decisions about which businesses to operate themselves and which to leave to third parties.

The vast majority of multifamily housing is not benefiting from the management approaches described in this article. As a result, there exists an enormous opportunity for companies to both deliver new management approaches directly and to train other firms to provide these approaches on their own.

Apartment residents in communities offering the services mentioned in this article, such as state-of-the-art telephone and television packages, preferred vendor discounts and dedicated professional management staffs, have gained substantial value in recent years compared to residents of single-family homes. The amenities and services offered in many apartments today surpass those available in single-family homes.

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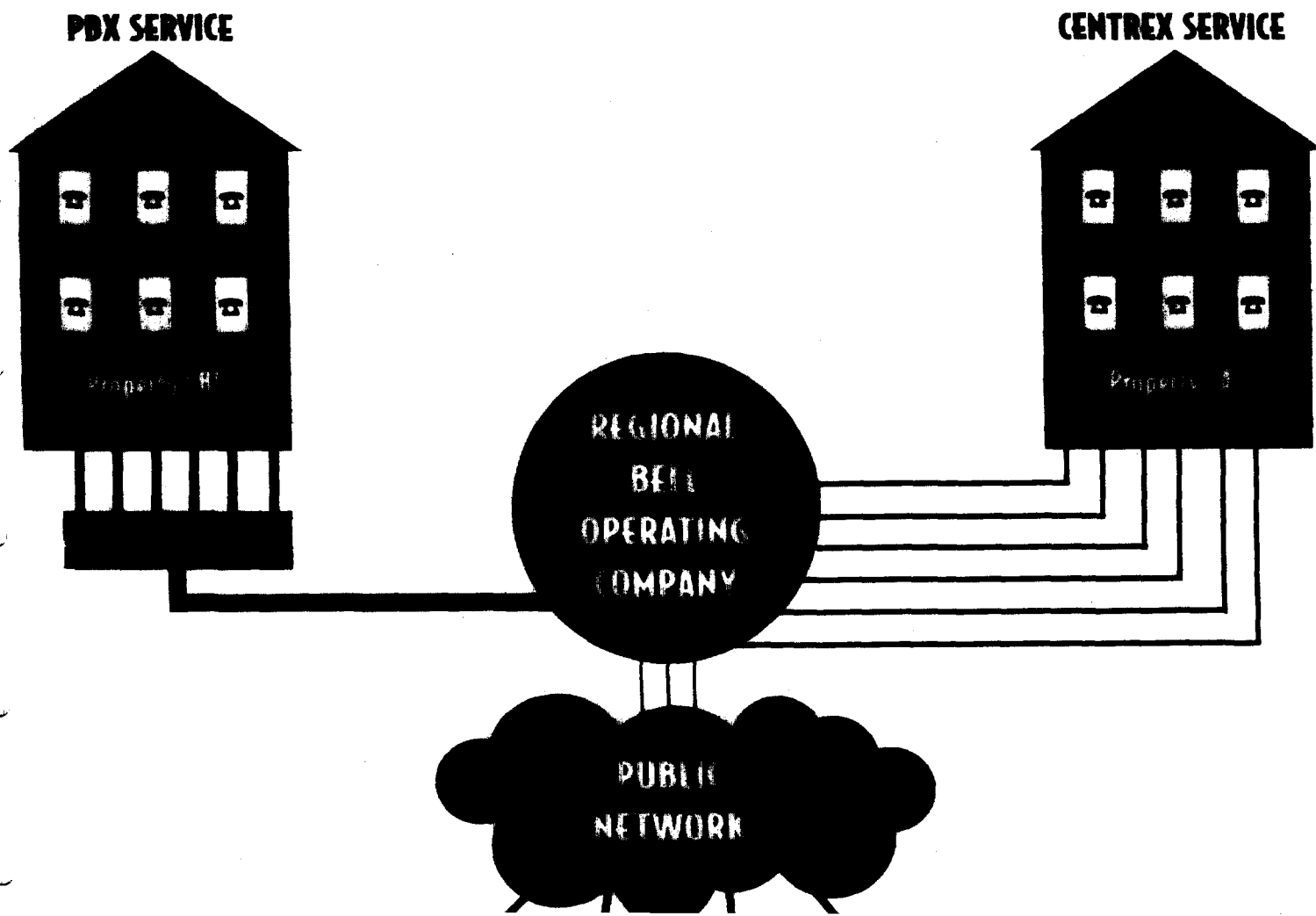
- You make money every time your residents make phone calls. Increase your revenue and your property’s resale value.
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- Gives your property a tremendous competitive advantage in retaining and attracting residents.
- Our systems are fully upgradable. So there’s no long-term commitment to obsolete equipment. That way, you can always offer your residents the latest in telecommunications services.
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- Efficient 24 hour customer service. And our Customer Care commitment to helping residents get the most out of their phone service.



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60 - 120 Days	Install Time	10 - 90 Days
Triple Redundant	911	Network Based
No	Number Portability	Yes
ResCom Technician	On Site Service	LEC Technician
Yes	On Site Equipment Room	No
Critical Component	Redundancy	100%
Yes	Call Feature Availability	Yes
Yes	Voice Mail	Yes
Yes	ISDN	Yes
Yes	Internet Access	Yes



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ResNet - An Established Interactive TV Solution for Today

LodgeNet Entertainment, ResNet's parent company has been delivering cutting-edge interactive video services to the lodging industry for more than a decade. LodgeNet has established a strong infrastructure of development, service and support resources to serve more than 425,000 hotel guest rooms across North America. Now, ResNet Communications is bringing the resources and technology of its parent company to apartments nationwide. While other video service providers point to interactive television as the future, ResNet can deliver proven interactive applications today.

ResNet - Your Gateway To More Revenue Opportunities

A ResNet system in your apartments enhances the bottom line of your property portfolio in two ways.

First, you share in the gross revenue generated by the video services system.

Second, you position your property to attract more 'amenity-conscious' rental prospects. ResNet's unique video-on-demand technology

gives you a competitive edge in your marketplace. In addition, GE Capital-ResCom's "one-stop-shop" approach will enable you to bundle video and telephone service packages. These combined revenue-enhancing features begin generating profits for your business immediately.

ResNet - The Right Decision for an Evolving Industry

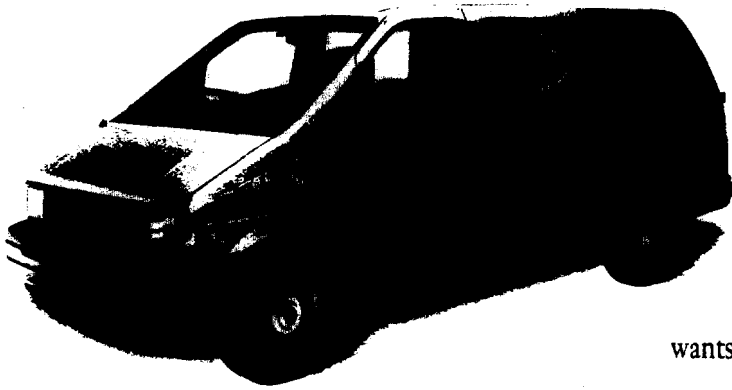
Technology is advancing more rapidly than ever before. Today's cutting edge developments could

become obsolete within a few years or even months. The ResNet system has been designed to keep pace with the digital future. ResNet engineers have developed a modular approach to upgrades that allows new

technology to be easily incorporated into an established system base. Utilization studies involving the LodgeNet customer base indicate that better technology translates into higher revenues. Therefore, ResNet is committed to keeping its system technology current to preserve revenues, to maintain tenant satisfaction and to help you stay competitive.



ResNet - A Unique Approach to Service and Support



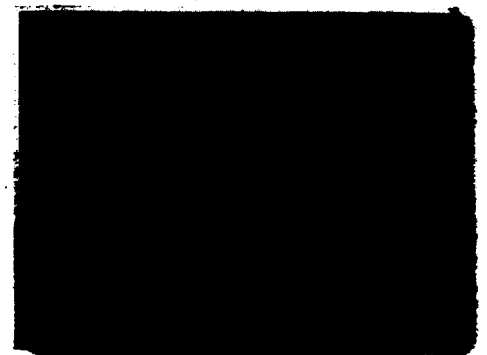
One of the key elements of the ResNet system is a technology known as "INTERDICTION". Interdiction technology allows ResNet to electronically manage the flow of video services without the need for "re-wiring" or descrambling in the apartment unit. When a resident wants to change their programming, they can simply call ResNet's

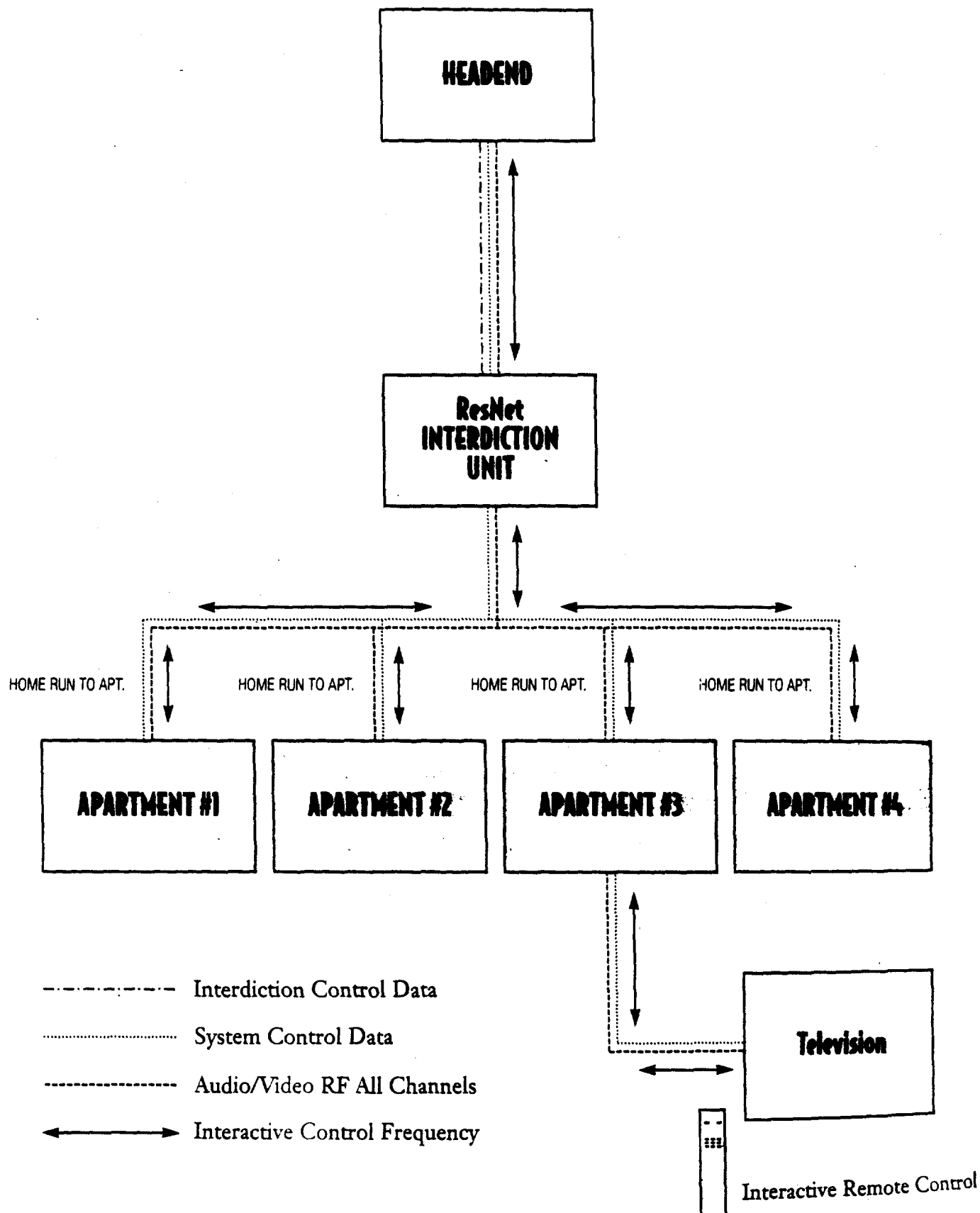
24-hour customer support hot-line. Within minutes, ResNet can electronically "authorize" the change in video service to the apartment without visiting the property.

Should a technician be required on-site for service, ResNet can dispatch local personnel from its parent company's established field service organization.

ResNet - The Programming to Keep YOU Competitive

The right combination of programming, pricing and packaging can help you sell rental agreements. That's why ResNet offers the best programming lineup available at rates competitive with other video service providers. But the benefits don't stop there. In addition to popular channels like HBO, Showtime, CNN, ESPN and The Disney Channel, ResNet offers your residents true "video-on-demand". While other video service providers continue to experiment with "on-demand" technology, ResNet delivers top Hollywood blockbuster movies today, on-demand, at the press of a button. This combination of premium channels and "video-on-demand" movies provides you an unparalleled package of programming to keep your properties on top of the marketplace.







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Line Maintenance Plan	Included	.60
Monthly Service Fee	\$19.95	8.35
Taxes & Mandated Charges	Included	2.63
Subtotal Monthly Charges <small>With 1 calling feature</small>	\$19.95	\$18.88
Voice Mail	Included	5.95
Calling Feature Package <small>(Including features like):</small>		
Speed Dialing, Conference Calling		
Call Forwarding, Call Holding	Included	6.30
Wake-up Calls	Included	Not Available
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